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C O N F I D E N T I A L SECTION 01 OF 03 VIENNA 002111

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SUBJECT: OMV CEO RUTTENSTORFER DISCUSSES IRAN, NABUCCO, MOL

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Classified By: Charge d'Affaires Scott F. Kilner for reasons 1.4 (B)(D)

SUMMARY

1.(C) In an August 8 meeting with the head of Austria's largest energy company, UNVIE Ambassador Schulte, supported by Bilateral Embassy Charge, provided a thorough review of the United States' concerns over Iran's nuclear program, underlining that OMV's "Heads of Agreement" with Iran undermined multilateral diplomatic efforts to convince the government to change course. Rutenstorfer acknowledged the challenge of dealing with the current regime in Tehran, but attempted to portray the agreement as the only way his company could maintain a long-term presence in the Iranian market, including the possibility of Iranian participation in the Nabucco pipeline. Separately, the French Embassy in Vienna has also urged the Austrians not to move forward with the South Pars project.

2.(C) Rutenstorfer also described OMV's aggressive stance toward its Hungarian counterpart, MOL, as motivated by concern over "excessive" Russian penetration of Central European energy markets, including through a possible takeover of MOL. More likely, in our view, is that OMV itself is worried about becoming a possible takeover target, possibly by a Russian company or possibly by a larger Western European competitor. End Summary.

IRAN

3.(C) Amb. Schulte began by explaining that, as a follow-on to Amb. McCaw's meeting in April (Ref A), he wanted to provide Rutenstorfer with an update on U.S. views toward Iran's ongoing nuclear efforts. In about a month, IAEA DG El Baradei would be issuing a new report on Iran, in which the U.S. would be looking for answers to two questions: Has Iran begun to cooperate with the IAEA? Has Iran suspended activities of concern? Amb. Schulte then reviewed Iran's history of noncompliance toward the IAEA, its very problematic behavior in the region and, not least, efforts to develop a long-range missile capacity, which should be of high concern to Europe. International diplomatic efforts had been painstakingly constructed to show the Iranian government two clear paths: the current course, which would lead to increased isolation and sanctions; or a change in nuclear policy, which would offer Iran the prospect of a much more normalized relationship with the rest of the world. The reason why OMV's deal with Iran was so problematic, Schulte concluded, was that it undermined the positive incentives that the international community was trying to offer, by giving the Iranians what they want without Iran having to change its behavior. For this reason, we strongly hoped that

OMV would find a way to not implement the South Pars Heads of Agreement.

4.(C) Rutenstorfer responded to Schulte's presentation first by acknowledging the gravity of the nuclear problem in Iran, but then offering his rationale for OMV's continued engagement in the country. While OMV historically had very good relations with Gazprom, his company fully agreed with the U.S. that Europe needed greater diversification of gas supply. This was in fact the driving motivation behind OMV's leadership of the Nabucco project. When one considered where that gas could realistically be sourced, however, there were only two viable non-Russian options: LNG from Qatar (which was already dominated by American companies) and piped gas from Iran. Azerbaijan was significant, but not a large enough producer for the near-to-medium term future. Turkmenistan had the reserves, but how could they be brought to Europe, if not through Iran? Iran, Rutenstorfer stressed repeatedly, was the country of choice for most European oil and gas companies because there was "no other option" outside of Russia.

5.(C) Rutenstorfer took pains to try to argue that OMV was not naive about the current regime in Iran. The company would make every effort not to cooperate with Iranian entities with close ties to the Revolutionary Guard, even though this differentiation was not a simple one to make. Similarly, OMV would do its utmost not to finance or otherwise support nuclear or other "problematic" programs. The company's sole objective was to "not close the door" at this time to participation in the long-term natural gas development of the country. Rutenstorfer insisted that if OMV had said "no" when Iran offered a Heads of Agreement in the South Pars, the door would have closed for his company --

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not only in the South Pars, but to Iranian participation in Nabucco, which Rutenstorfer saw as the bigger prize. Rutenstorfer admitted that OMV was trying to walk a fine line, and that it was not easy.

6.(C) Finally, Rutenstorfer stressed that if the international community agreed that sanctions against the Iranian oil and gas sector were necessary, and if these restrictions were applied universally through a U.N. resolution, OMV would abide without hesitation. Until that happened, however, the company could not cede the ground to its many competitors who remained active in Iran.

7.(C) Amb. Schulte reminded Rutenstorfer that Iran had a history of making limited, symbolic gestures in advance of each round of UNSC debate on a new sanctions resolution. The GOI would also undoubtedly look for easy propaganda victories, especially in the energy sector. He asked whether Rutenstorfer expected any new OMV agreements with Iran in the near future. Charge also asked about Iranian press reports in recent days of an Austrian-Turkish-Iranian oil consortium agreement. Rutenstorfer replied that Iran had awarded OMV and Turkey's Petrol Ofisi oil and gas explorations rights to a minor tract in the "Mehr Block," whose output was unlikely to exceed \$10 million in value per year. Schulte replied that no such activity is helpful in the current environment, and he again asked Rutenstorfer to find a way to back off from the South Pars Heads of Agreement.

Relations with MOL

18. (C) Following the discussion of Iran, Charge' noted that OMV's relations with its Hungarian counterpart, MOL, had been the subject of considerable controversy in recent weeks. He asked if Rutenstorfer could clarify his company's strategy. Rutenstorfer replied bluntly that OMV's actions had been, and continued to be, motivated by a concern over "excessive"

Russian penetration/domination of Central European energy markets. Specifically, OMV was worried about a Russian takeover MOL, giving it control of MOL's refining, storage and distribution infrastructure (in oil as much as gas), for which Russia is already a near monopoly supplier. This is not a development that OMV would welcome: to depend upon Gazprom purely as a supplier was one thing; to confront Russian control of both supply and infrastructure in Central Europe was quite another. As a way of fending off the latter eventuality, Ruttenstorfer said that in June he had proposed an OMV buyout of MOL. He frankly admitted, however, that he had badly underestimated the "nationalist reaction" from Hungary.

19. (C) Ruttenstorfer said that he was now simply trying to calm the situation. More precisely, he was currently trying to explore with MOL other, less threatening, formulas through which OMV and MOL might combine as a unified commercial entity in the Central European region, perhaps with joint headquarters in Vienna and Budapest, and simultaneously limit Russian penetration. In pursuing such discussions with MOL, Ruttenstorfer said that he had only two non-negotiable conditions: 1) the combined entity must have a rational structure so as to be "manageable;" 2) the position of OMV's two major stakeholders, the Austrian government (31.5% through OIAG) and the Abu Dhabi government (17.6% through IPIC), had to be preserved. The second requirement, he underlined again, was necessary to provide future protection against a Russian takeover.

COMMENT

10.(C) IRAN: While Ruttenstorfer's defense of OMV's engagement in Iran covered little new ground, he gave us the impression (more than previously) that he sees Iranian participation in Nabucco as the real prize for his company. Not only did he place strongest emphasis upon the need to keep the door open for Iranian participation in Nabucco. Ruttenstorfer also hinted, in response to our questions about other deals on the offing, that there could be an important breakthrough on Nabucco, even though "there are no concrete discussions taking place at the moment."

11.(C) MOL: We were struck by Ruttenstorfer's contention that OMV's actions toward MOL stemmed from a fear of excessive Russian domination of Central European energy markets. This line effectively turns Hungarian charges -- that OMV is in bed with the Russians to promote their interests in Central Europe -- on their head.

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Ruttenstorfer's claim deserves to be viewed skeptically, given OMV's long-standing cozy relationship with Gazprom, including a new gas import agreement concluded during Russian President Putin's visit to Vienna in May. We do believe, however, that OMV is worried about becoming the target of a hostile takeover itself -- perhaps from a Russian energy company, perhaps from a larger Western European competitor. Seen from Vienna, one plausible explanation for OMV's aggressive stance toward MOL is that it views a takeover (or favorable merger) as a means by which OMV can more favorably position itself to resist unwelcome approaches of foreign predators, from whichever direction they may come.

12.(C) Footnote on Iran: On August 9, the French Ambassador to Austria approached Charge at a diplomatic event to mention that, upon instructions from Paris, his Embassy had delivered a message to both OMV and the Austrian Economics Ministry urging that OMV not/not move forward to implement the South Pars Heads of Agreement. The Ambassador said that this message "was not well received."
Kilner